

PREFACE

DoD management has become increasingly concerned with broad-based increases in defense contractor indirect cost rates. Many factors have contributed to these rate increases—the major one being a significant reduction in business base for most defense contractors because of the declining defense budget. As a result, DoD has undertaken expanded efforts to strengthen the monitoring of indirect costs. It has become very important for acquisition management personnel to gain a thorough understanding of the complex and sensitive subject of indirect cost management.

We have found in teaching various program management classes at the Defense Systems Management College (DSMC) that the subject of indirect cost or overhead is usually referred to in very unfavorable terms, is commonly misunderstood, and is thought to be virtually uncontrollable from a government program management perspective. In addition, the large number of indirect rates that one encounters in the defense industry significantly contributes to the confusion our students' experience. Our objective in writing this guide is to demystify what many of our students refer to as the "sea of overhead." We have found that there is no single published source for the general audience of acquisition personnel that provides a complete overview of indirect cost management. This guide is intended to fill that void.

From the government's perspective, the monitoring of indirect cost is exceptionally broad in scope and many personnel are involved in it. So it is essential for acquisition managers to thoroughly understand the interrelationships of the numerous DoD team members and how they can help improve the monitoring process.

The research and writing of this guide was accomplished over a two-year period with the work being performed between our advanced program management classes (APMCs) and various short courses. The task has not been easy; this subject is very difficult to get a handle on due to the breadth of the subject matter. As we were told by several people in both industry and government during our initial efforts, "the subject of indirect costs or overhead includes everything." As we later learned, it does in fact include everything ongoing at a defense contractor's plant. To gain background information, we conducted on-site interviews with personnel who were actively performing indirect management functions in industry and indirect cost monitoring functions in the government. The arrangements were made through contacts with our industry and government students in our APMCs. Recognizing that indirect rates are highly proprietary information, our interest was not in the quantification of indirect rate data but in the business processes used in managing these difficult-to-control costs. Several contractors and government offices provided assistance to us. We would especially like to express our appreciation to both contractor and government personnel located at Pratt-Whitney, Sikorsky, Loral Imaging Systems, and Boeing. We would also like to express our appreciation to personnel in the DCMC Headquarters Overhead Center of Excellence and in DCAA Headquarters who provided us with information relating to current issues and initiatives ongoing in their organizations.

DSMC is the controlling agency for this guide. Comments and recommendations are solicited.

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